



## TOWN OF LOS GATOS

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May 7, 2007

Honorable Mayor and Town Council:

I am pleased to present to you the FY 2007/08 Operating and Capital Budget for the Town of Los Gatos and the Los Gatos Redevelopment Agency. This document provides a comprehensive summary of all Town Operating and Redevelopment Agency financial activities proposed for FY 2007/08 and Capital Improvement Program activities proposed for the FY 2007-12 planning period. It presents a balanced financial plan to meet the Town's service priorities within the projected available resources. The proposed budget is balanced through a combination of actions which include selected expenditure reductions, realignment of service fee increases to recover costs for private development and other user fee supported activities, and the prudent use of reserves for expenditures of a one-time nature or to fund organizational changes over a limited time period.

The Proposed Budget represents the recommended financial plan to carry out the Town's FY 2007/08 work plan which is consistent with the Town's Strategic Goals for FY 2007/08 as discussed at the Council's March 2007 retreat and adopted in April 2007. The adopted Strategic Goals, along with priority projects for FY 2007/08, are:

*Public Safety* - Ensure public safety through proactive community policing, effective emergency response, and community-wide emergency preparedness

- Priority project: Determine and implement action plan to address police department facility needs
- Priority project: Expand the Los Gatos Prepared campaign to maximize the number of residents who are self-sufficient in the even of an emergency

*Community Character* - Preserve and enhance the appearance, character, and environmental quality of the community

- Priority project: Develop work plan and timeline for the 2010 General Plan update, and launch effort

*Public Infrastructure* - Maintain the condition and availability of the Town's public facilities, transportation systems, and other public infrastructure

- Priority project: Address funding needs for street maintenance, sidewalks, and retaining walls

*Civic Enrichment* - Foster opportunities for civic engagement, and cultural, recreational and individual enrichment

- Priority project: Determine and implement action plan for the development of a new library

*Fiscal Stability* - Maintain ongoing fiscal stability to provide cost effective core services that meet the needs of the community

- Priority project: Seek long-term fiscal stability through revenue diversification and providing full-service goods and services for the community

*Good Governance* - Ensure responsive, accountable and collaborative governance

- Priority project: Expand the availability of e-government services available through the Town's website

In addition to these priority projects, the FY 2007/08 budget incorporates the special projects on the 2007 Administrative Work Plan (see Appendix). A selection of these special projects appears as key projects in the departmental sections of the budget. The FY 2007/08 budget funds Town efforts to address the priorities, implement special projects, and deliver core services consistent with the principles of small town service, community stewardship, and a focus on the future. The overall goal of the services funded by the FY 2007/08 budget is to maintain a high quality of life in Los Gatos.

## **MAJOR ISSUES – FIVE-YEAR FINANCIAL UPDATE**

As Council was informed in the FY 2006/07 mid year update, the Town's Five-Year Financial Plan projects a moderate excess of operating revenues above operating expenditures for FY 2007/08. This favorable situation is the result of increases in economically sensitive revenue coupled with the Town's proactive effort to reduce operating budget costs, retain and protect vital revenue sources, and align organizational services with projected revenue streams. Informed by this forecast, staff is proposing essentially a "status quo" budget for Fiscal Year 2007/08. The recommended "status quo" budget scenario means that the proposed budget for FY 2007/08 funds the current levels of service now in place. Inflationary-related increases to contractual services per long term agreements between the Town and vendors, and salary and benefit costs related to Town collective bargaining agreements were also incorporated into the proposed budget. With some limited augmentations to service levels proposed for next year, the "status quo" budget recognizes that service deficiencies below previous benchmarks still exist due to budget rightsizing efforts implemented since FY 2001/02. Unless these service levels are restored in future budgets, the reduced service levels may be the new reality for the foreseeable future.

The updated Five-Year Financial Plan confirms the successful result of past budgetary actions taken by the Town to address projected revenue shortfalls. Substantial progress has been made in reducing the projected level of shortfalls, pushing out the imbalance between operating revenues and expenditures to FY 2010/11. The current financial forecast assumes moderate expenditure increases in most categories except for energy and employer retirement and post retirement benefit costs, which are projected to increase significantly. Revenue forecasts are optimistic, yet moderated by recent threats to ongoing operating revenue sources such as the recent closure of auto dealerships. Mindful of projected revenue shortfalls in FY 2010/11, the proposed "status quo" budget will provide more time for the Town to continue to examine opportunities for cost reductions associated with workload and organizational efficiencies as well as opportunities for new revenue sources.

The Five-Year Financial Plan confirms that the Town's cost saving strategies, which total nearly \$4.5 million through FY 2006/07 have contributed to the prevention of current operating revenue shortfalls, but are not enough to eliminate the ongoing budgetary challenges projected in future years, which appear to be structural in nature. The Plan projects that if not solved with permanent ongoing revenue increases or expenditure reductions, the level of imbalance will continue to worsen, leading to an annual projected shortfall ranging from \$250,000 to \$600,000 in fiscal years following FY 2009/10.

## **Structural Imbalance Between Available Revenues and the Cost to Deliver Services**

The Five-Year Financial Plan update identifies areas of concern that staff continues to monitor. These influenced the development of the Town's proposed budget for FY 2007/08. Of note are:

*Personnel Costs to Deliver Services* – As a service provider, delivery of Town services are highly dependent on labor (comprising approximately 70% of General Fund expenditures), the cost of which has been trending above the increase in operating revenues. In order for the Town to remain competitive in the labor market in a high cost region, the Town's labor costs have continued to grow. In particular, public safety salary and benefit increases throughout the state have influenced the Town's public safety labor costs. In recent years, the Town, like all California cities, has experienced a significant increase in the employer's share of its public retirement system contributions, a cost factor that is in large measure immune to employer control. The adoption in FY2000/01 of an enhanced safety employee's retirement formula (3% at 50) for safety employees and several years of negative investment returns in the State of California PERS pension system have contributed to increases in retirement contributions paid by the Town. Town employer rates for FY 2007/08 as determined by CalPERS are slightly higher than the current year for Town "miscellaneous" classified employees, rising from 12.663% of covered payroll to 12.990%. Conversely, the rates for "sworn" public safety employees are expected to lower slightly next year from 33.990% to 33.549% of covered payroll. The current rates are significantly higher than rates charged by PERS as recently as FY 2004/05, which were 8.005% for miscellaneous employees and 16.010% in FY 2003/04 for sworn public safety employees.

Based upon historical trends and recent actuarial estimates obtained from PERS and the Town's independent consultant, the Town's contribution toward retirement for sworn personnel is expected to remain at historically high levels for the foreseeable future. The Five-Year Forecast assumes that increasing retirement cost will continue. This trend remains an important factor in the concern for projecting the Town's potential inability for operating revenues to keep pace with operating expenditures. In the out years of the Five Year Plan, the Town's latest actuarial information available indicates the rates for public safety sworn employees may rise to 35% of covered payroll. A mitigating factor that may limit the rise in rates is the potential for positive returns in the PERS investment portfolio. Recently the CalPERS board adopted an "Employer Rate Stabilization Policy" which should level or smooth rate fluctuations by spreading the PERS portfolio market gains and losses over a 15 year period versus the prior policy of three years. These factors have some potential to control PERS employer rate growth, but the reality is that rates charged in the future are very dynamic and remain a volatile cost that must be monitored. The increase in PERS rates is a statewide challenge which may be addressed or level off in the future, however the Town must proceed at this time to plan with the best information currently available.

The proposed FY 2007/08 General Fund budget includes funding for an increase in salaries and benefits from the prior year adjusted budget of approximately \$874,000, or an average increase of 4.5%. Approximately \$304,000 or 34.7% of the FY 2007/08 total increase in budgeted salary and benefits is related to the cost of public safety. The remaining balance is attributable to miscellaneous (non-safety) classified employees. Despite the funding challenges presented, it is important to plan and budget for reasonable increases in salaries and benefits in order to remain a competitive employer in a high cost region.

*Other Benefit-Related Costs* – Consistent with national trends, health care costs continue their upward climb, with increases of 16-20% annually over the past several years. Recent agreed upon changes in labor contracts between the Town and its represented employees and with non-represented groups such as management are "holding the line" against automatic escalation of health costs. This is reflected by the capping of maximum cash back allowances that were based upon health premiums, providing for expected significant savings in future years of the plan. The Town will need to continue to explore ways to contain the escalation of benefit

costs while remaining a competitive employer in order to attract and retain a qualified workforce to provide essential Town services.

Effective FY 2008/09, GASB 45 will require the Town to accrue an annual expense on its financial statements for the estimated cost of providing post retirement health care coverage. The annual cost of this benefit will essentially be determined in the same way as annual pension costs are determined by using an actuarial study as its basis. Retiree health benefits, like pension benefits, are a form of deferred compensation; that is, compensation earned by employees during their working years, but paid to (or used by) individuals after they retire. Pension systems typically are funded by governments paying costs each year-as employees earn this type of deferred compensation. The funds are invested so that they generate returns and grow until required to be paid to the employees after retirement. This is known as “prefunding,” and pension accounting standards focus on how well retirement systems are prefunded. To the extent that funds set aside each year (with assumed, future investment earnings) are insufficient to cover projected benefit costs, the system has an “unfunded liability.”

Retiree health programs will now have accounting standards that are very similar. GASB 45 requires a calculation of an unfunded liability for retiree health programs similar to the comparable figure for pension systems. To accumulate funds to ultimately pay the “unfunded liability,” cities will likely be required to establish a payment plan (termed the “annual required contribution” or ARC). The ARC consists of an amount calculated for current costs for active employees and a “catch-up” amount for prior year’s service costs that need to be ultimately funded upon the employee’s retirement. The ARC payments are made according to an established payment plan (i.e. the amortization period, usually 20-30 years) and are typically deposited into a trust account held in the name of the city. The trust account is used to fund the annual benefit costs on a “pay-as-you-go” basis and the difference between the amounts paid on a “pay-as-you-go” basis and the amounts paid to the trust per the “annual required contribution” will earn investment income. At the end of the amortization period, the excess funds deposited in the trust should accumulate sufficient funds to pay the estimated future actuarial liability.

Staff will soon be reviewing proposals from consultants to begin an actuarial study of the Town’s post retirement health care benefits. If the Town’s experience is similar to other cities, it can expect that the “annual required contribution” will be more than \$190,000 budgeted on a “pay-as-you-go” basis this fiscal year. Recognizing the potential for the annual payments to increase, the Five-Year Plan assumes a 25% increase for retiree health cost from year to year. The Town will not know if this is sufficient until the actuarial evaluation is complete. Because the Town has a cap on the annual growth of this benefit, this will be a positive element for the actuarial study, but since the cap is linked to the growth in health care premiums, actuaries have told city officials to be prepared for “big numbers.”

Revenue Trends Require Close Monitoring – Again at mid-year FY 2006/07, General Fund revenues were trending ahead of adopted budget levels, largely on the growth of one local internet commerce retailer. During the boom years of the late nineties, the Town’s General Fund operating revenues were increasing an average of 13.8% per year for the five year period ending 2001. The FY 2007/08 proposed General Fund budget assumes continuing conservative growth trends approximating 3% to 5% per year for most categories of revenue. The budgeted sales tax for FY 2007/08 represents a 7.65% increase from the FY 2006/07 adopted budget, a positive overall growth for this vital revenue source for the Town. The growth is due mainly to continued increases in collections from Netflix, whose taxable sales increases have helped offset annual ongoing losses of \$400,000 to \$500,000 resulting from closure or relocation of three local auto dealerships in the past two fiscal years. Property taxes, the second largest revenue source to the General Fund, were forecasted to increase 5.62% from the prior year’s adopted budget based upon conservative estimates using current tax collection data.

Continued Evaluation and Implementation of Service Delivery Efficiencies – Over the past five fiscal years, the Town achieved approximately \$4.5 million cumulatively in cost reductions and revenue enhancements. The reductions were accomplished through a combination of strategies, including hiring freezes, position

defundings, operational efficiencies, FTE reductions, voluntary leaves without pay, management salary increase deferrals and overall belt-tightening in all Town cost areas. These actions have had their impacts with changes to service levels in some areas. With the updated forecast indicating that in out years of the plan a structural shortfall is likely to persist, more adjustments will be required.

Energy Costs – Town-wide cost increases in energy uses including fuel for police vehicles and parks and public works field trucks; water for Town parks, landscaping and facilities; and natural gas and electricity to provide heating, air conditioning, and lighting for public facilities including street lights, parking lots, park facilities, the Town’s Civic Center, Library, Neighborhood Center and Corporation Yard facility have exceeded the general inflation rate. The increases are due in part to the rise in electric and gas charges resulting from the current economic spike in general energy costs coupled with global fluctuations in gasoline prices. Energy costs continue to be monitored by staff. Steps have been and will continue to be taken to examine Town-wide energy costs and look for ways to manage energy use and control costs.

### **Limited Capacity for Infrastructure Funding**

The Town has relied on a practice where excess revenues available after replenishing certain required reserves were largely placed in the Town’s Reserve for Future Capital Improvements. Among other capital uses, this reserve has funded approximately \$18.7 million in street improvements since FY 1997/98. The investments made to date have increased the Town’s average Pavement Condition Index (PCI) from a low in recent years of 64 to its current level of 75. (The PCI index is an indication of pavement condition at a point of time, with 100 being considered of the best possible condition.) A recent study of the Town’s pavement management program recommends an annual expenditure of approximately \$1.5 to \$1.9 million in ongoing street maintenance and improvements to keep the Town’s streets at their current level of condition. Studies indicate that levels of investment lower than this amount may lead to an overall deterioration of the Town’s street pavement condition which will cost more to improve over time. In addition to the transportation system, other high priority infrastructure classifications like retaining walls, park refurbishments, and facility improvements are expected to require significant investment in order to preserve and enhance them for the future.

Due to the Town’s prudent management of reserves and restraint in programming spikes in economically sensitive revenues for significant increases in services, designated reserves in the General Fund are now sufficient to recommend an increase in the transfers from the General Fund to the Town’s capital program. The proposed budget for FY 2007/08 includes an increase in transfers from the General Fund Reserve for Future and Special Projects to the Town’s General Fund Appropriated Reserve (GFAR) Capital Projects Fund from the \$150,000 level in the FY 2006/07 adopted budget to \$650,000 in years two through five of Five Year Capital Improvement Plan (CIP). Additionally, new funding from Proposition 42 (estimated \$297,712 in FY 2008/09 and an estimated \$150,000 annually thereafter) and Proposition 1B transportation funds (estimated \$921,000 received over a five year payment period beginning in FY 2007/08) are also anticipated to be available for the Town’s capital program.

A recap of the estimated funding for that will be available for street maintenance in each year of the five- year period from FY 2007/08 through FY 2011/12 is as follows:

<b>Potential Funding Source`</b>	<b>Annual Estimated Amount Per 5 Year CIP</b>
Transfer from General Fund Designated Reserve	\$350,000
Gas Tax Funds	500,000
General Fund Appropriated Reserve Fund:	
Proposition 1B Annual Estimate	184,000
Proposition 42 Annual Estimate	<u>150,000</u>
<b>Five Year CIP Estimated Annual Total</b>	<b>\$1,184,000</b>

Although the estimated amounts available for streets of approximately \$1.2 million per year is a positive development, it does fall short of the Pavement Management Program's recommended range of \$1.5 to \$1.9 (inflation adjusted) needed to stabilize the Town's average street condition at a PCI value of 75. The \$1.2 million is also subject to loss of purchasing power over time due to the rising costs of oil products such as asphalt.

Unless alternative revenue sources are found or more substantial operational funds can be programmed from the Town's operating expenditures for capital, the primary source of funding for capital improvements will continue to be unexpended annual operating budget funds available at the end of the fiscal year. The use of designated General Fund reserves are expected to continue to provide funding for future years for this critical Town need, but the total annual funds available for street maintenance remain below the required funding levels. There is potential that some future infrastructure projects located within the Town's RDA project area will be eligible for funding through the issuance of new RDA debt. Another round of RDA debt financing is anticipated to be issued before December 25, 2011, the last date the Agency can secure new debt under State law. The current estimate of potential future borrowing capacity is \$13 to \$15 million. This estimate is subject to change in the future depending upon the growth rate of RDA tax increments. Understanding the importance of maintaining the Town's infrastructure, staff will continue to explore with the Council options for a dedicated source of revenue for this program in the future. Concepts include the feasibility of a voter approved General Obligation Bond issue dedicated for identified capital improvements Town-wide, some form of assessment district for specific improvements within identified zones, or other alternatives yet to be determined.

### **State Budget Impacts**

In the fall of 2004, California voters passed Proposition 1A by a nearly 82% majority. Proposition 1A is a constitutional amendment protecting local taxpayer revenues from state revenue takes of local property taxes without a 2/3 legislative majority approval and the Governor's declaration of a fiscal emergency which can be invoked only twice in ten consecutive years, and must be repaid within three years. Despite this new protection many unknowns exist, including additional State revenue takes of property taxes under a "fiscal emergency" or other revenue takes of non-property tax revenues such as the State's reimbursement of booking fees.

The State budget deliberations and their effects on the Town are not known with certainty at the time this budget was prepared. The Governor's January 2007 proposed State budget did not envision any additional State "takes" from local governments for FY 2007/08, but until a final budget is approved, the potential exists. Examples of state funding which are important to the Town proposed in the Governor's FY 2007/08 budget include the COPS grant, limited funding for State Mandated Cost reimbursements, and proposed funding for Proposition 1B transportation funds in FY 2007/08 and funding for Proposition 42 funding in FY 2008/09. The funding for these intergovernmental revenues is good news and staff has incorporated these revenues into the FY 2007/08 Proposed Operating and Capital Budgets. Nonetheless, supplemental state revenues such as the COPS grants, law enforcement grant monies, and Prop 42 funds among others, which are not specifically protected by Proposition 1A remain vulnerable to State "takes" each budget year. Any changes which occur to alter these assumptions either positively or negatively will be incorporated into the final adopted budget or during FY 2007/08 as information is confirmed. Regarding Prop 42 gas taxes, Proposition 1B, a State ballot initiative to enhance the reliability of certain transportation funds like Proposition 42 funding was approved by voters in the fall of 2006.

The Town continues to work closely with the League of California Cities to stop future State revenue takes and to work on other important issues like pension reform.

## STATUS QUO BUDGET HIGHLIGHTS FOR FY2007/08

Informed by budget estimates for FY 2007/08 derived from the update to the Five-Year Financial plan, staff is proposing essentially a “status quo” budget for FY 2007/08. The Proposed FY 2007/08 Budget reflects a number of principles that take into account the current and long-term fiscal picture as well as high priority service delivery needs. The key principles include:

- To the extent possible, recommend a “status quo” budget
- Consider budget augmentations in cases where prior year budget reductions have resulted in service deficiencies in high priority areas
- Make progress or initiate transitions to ensure cost-effective and high-performing organizational structures
- Identify opportunities for enhancing service delivery through technology

Staff is recommending some augmentations to service levels in FY 2007/08 to address deficiencies deemed unacceptable in certain core service areas. Of note are the following:

- *Police* - In the current fiscal year, the department has reassigned one officer from the Regional Auto Theft Task Force to patrol to address the need for minimum staffing, and recommends the continuation of that redeployment. While the reassignment results in a loss of \$90,000 in reimbursement from the regional task force, it adds one patrol officer to meet minimum shift requirements and allows the department to increase patrol staffing by one officer without the full expense of a new officer. The proposed budget for FY 2007/08 also includes approximately \$90,000 in additional funding to ensure minimum staffing levels in the event of vacancies, in particular the vacancies occurring between the time an officer resigns and a new one is hired from the academy. In addition with the anticipated retirement of one Parking Control Officer, the proposed budget recommends defunding this position and adding a half-time Community Services Officer Intern. The remaining two Parking Control officers will be focused primarily on parking enforcement; the Community Services Officer Intern will focus on administrative duties that have traditionally been assigned to the parking program. It is expected that parking enforcement service levels will not be significantly reduced by this recommended change.
- *Parks and Public Works* - The proposed budget includes funding for certain reclassifications and restructuring in the administrative and engineering areas. In the Engineering Program, the proposed budget funds the restructuring of a Engineering Tech position to meet the growing demand for both private development (fee supported) and public infrastructure activities which require professional skills to meet the demand. In the administrative area, a reclassification is proposed for the Secretary II position to an Administrative Secretary position to better align duties and responsibilities. In the maintenance area, a proposed reduction of hourly part-time Temporary Maintenance Workers is recommended to better align workloads and responsibilities between full and part-time staff, enhancing service delivery with lower overall cost to the department. The budget proposes augmentations to hourly temporary employees and to non-personnel costs to address the need for enhanced weekend garbage pick-up (Sunday pickup and garbage receptacle cleaning) and steam cleaning in the downtown. In addition, the proposed budget recommends restoration of a maintenance worker position to permanent funded status which addresses the gap in maintenance capacity which occurred as a result of the transition of sewer services to West Valley Sanitation District.
- *Community Development* - Service demand generated by development activity remains high this fiscal year and is expected by the department to continue next fiscal year. The proposed budget funds

reclassifying a position creating an opportunity for higher level professional staff to provide management oversight to the department and facilitate the heightened workload. The cost of the classification changes will be supported by development fees. The proposed budget also includes additional funding for exploring alternatives in the department's streamlining and enhancing the noticing process. The increase for these costs will be supported by development fees. In addition, the department anticipates ramping up efforts on the General Plan and housing element updates. A staffing structure that effectively manages these key efforts is under review by staff. A recommendation will be presented to the Council when it discusses the General Plan Workplan.

- *Library* - The proposed budget recommends maintaining the current model of the library open to the public 54 hours/7 days per week. The materials budget continues at the restored FY2006/07 level of \$185,000. While no significant changes are proposed to the library's operating budget, placeholder funding is proposed in the capital budget for staff to explore technology alternatives to address self-check service at the library. The current equipment is not functioning consistently, and is no longer supported by its vendor.
- *Community Services* – Augmentations to the proposed budget for the Community Services Department have focused on reorganizations to align service responsibilities with staff resources, and on reclassifications to better reflect job responsibilities. The proposed reorganizations will result in more consistent coverage for customers who use the Neighborhood Center and better in alignment of work assignments with staff positions.
- *Town Manager's Office* - The Town Manager's Office anticipates further restructuring to align staff resources with work demands throughout the department. The restructuring is designed to promote seamless service delivery across administrative functions which serve the Town organization. One proposed change will reallocate funding to add an analyst position to provide technical and professional support to the Human Resources Department and Town Manager's Office. Recognizing the Town's continued reliance on technology and associated workload increases, staff proposes additional technical support in the information systems program and restructuring to better align administrative staff support with the needs throughout the organization. A portion of the additional technical support will be fee-supported as the new permit tracking system will require additional technical expertise.

The proposed FY 2007/08 budget adheres to the following goals: the discipline of sound fiscal and budgeting practices; using best management practices to preserve core service levels to the community; maintaining staffing levels to provide vital community services where practical and possible through a variety of strategies; and maintaining a progressive budgeting approach that is informed by a five-year financial planning horizon. It is important that the Town continue to come to terms with its ongoing fiscal reality that requires the organization to continue to strive to find efficient and cost effective ways to provide essential services to the community.



## **“STATUS QUO” BUDGET ASSUMPTIONS**

### **Revenue Assumptions**

- General Fund revenue assumptions use historical and current collection patterns to forecast revenues for FY 2007/08. Assumptions are based upon departmental revenue analysis and forecasts, County Property Tax estimates, and State revenue forecasts.
- The status quo budget also includes the continued use of the Town’s PERS set aside funds of \$300,000. Beginning in FY 1999/00 and through FY 2003/04 the Town prudently set aside nearly \$3.0 million (current balance is \$2.8 million) in required employer retirement (PERS) contributions when the employer rate was actuarially determined by PERS administrators to be zero. Believing that this trend could not be sustained, the Town conservatively continued to charge itself a 7% contribution rate of covered payroll during this time. To offset next year’s required employer contribution for public safety of 33.99% and for miscellaneous employees of 12.663%, the budget includes a \$300,000 transfer from the PERS set aside. If negative market returns continue to bump required employer contributions in future years beyond normal cost increases, the set aside would allow annual funding to occur for a total of nine more years at the present rate of withdrawal.
- Previous years have included rebates from excess balances from the Town’s Internal Service funds. Because of cost savings and improved revenues, the rebates were suspended in FY 2006/07. The suspension is recommended to continue in the proposed FY 2007/08 budget.

### **Expenditure Assumptions**

- Salary and Benefit Assumptions - Salary and benefit expenditures are projected according to contractual agreements with the Town’s bargaining units including the Police Officers Association which expires on December 31, 2007, the Town’s American Federation of State, County, and Municipal Employees whose contract expires June 20, 2007, and on comparable levels for unrepresented employees. The memorandum of understanding between the Town and the Town Employees Association (TEA) expires on November 1, 2008. Any adjustments resulting from the newly negotiated agreement with the TEA were incorporated in the proposed FY 2007/08.
- Defunded Position Assumptions/Vacancies – The FY 2007/08 Proposed Budget, though “status quo,” reflects a total of 23.45 de-funded positions occurring in prior years to balance operating revenues and expenditures. As funding becomes available, staff will review these defunded positions in future years to determine if they should remain in defunded status, or be deleted or redeployed to other service areas. To achieve structural balance, vacancies continue to be reviewed for potential attrition savings and reorganization opportunities as they occur. Cumulatively, all defunded positions account for budget savings in FY 2007/08 of approximately \$2.3 million.
- Non-Personnel Cost Assumptions - Materials and supply costs are projected based on estimated operating needs including known increases in contractual and other commitments, and increases due to projected use.
- Internal Service Funds - The Town uses Internal Service Funds to collect costs for administrative and support services and to allocate those costs to departments. Costs and funding rates are also established to reserve funds for future expenses associated with Vehicle Maintenance, Equipment Replacement, Workers’ Compensation, and the self-insured portion of the Town’s general liability claims. The rates and methods used to budget for these funds were once again comprehensively reviewed by Finance staff and the Town Manager’s Office in concert with Internal Service Fund

managers in the development of the FY 2007/08 budget. The analysis confirmed that small increases were necessary in all funds to provide sufficient resources to fund anticipated increases in claim activity such as in the Worker's Compensation fund or increases in operating costs as experienced in Vehicle Maintenance fund. Total Internal Service Fund charges are recommended to be increased by approximately \$228,500 from FY 2006/07.

### **Reserve Assumptions**

- General Fund Reserve Assumptions (Revenue Stabilization Reserve) – Regarding the financial status of this important General Fund reserve, there are sufficient revenues in the proposed FY 2007/08 so that no withdrawal of funds from this reserve is recommended. The purpose of this reserve is to mitigate or smooth out the cyclical ups and downs in locally generated revenues due to temporary downturns in the local economy or “one-time” revenue losses where recovery of the revenue base is deemed likely in the near future. The use of this reserve is intended to be “one-time” transitional revenue to maintain services until more data is available about the ongoing fiscal reality. The reserve is funded annually by taking a fixed percentage of 50% from annual year-end savings or revenue gains above revenue estimates. The reserve use (if any) is then replenished from annual expenditure savings or revenue gains above estimates in future years. The prudent use of a revenue stabilization reserve is recognized by the Government Finance Officers Association (GFOA) as a budgeting “best practices” policy, as its appropriate use limits the impacts on service delivery to the public. The policy also provides a target percentage of the remaining 50% of surplus funds, if any, available annually at year-end to be deposited in the General Fund Reserve for Future and Special Projects which is a vital funding source for the Capital Improvement program, future land acquisitions, Civic Center improvements, debt service, etc. The current balance of this reserve is approximately \$4.1 million, the majority of which is programmed to be spent in FY's 2007-08 through 2011/12 of the CIP. The Town also maintains an emergency reserve titled the Reserve for Economic Uncertainty (current balance is approximately \$3.7 million), in addition to other required accounting reserves such the Reserve for Encumbrances and Reserve for Loan Receivables.

## OVERVIEW OF PROPOSED FY 2007/08 GENERAL FUND BUDGET

Overall, General Fund appropriated expenditures are proposed to increase approximately 5.3% from the FY 2006/07 Adjusted Budget levels of \$28,571,345 to \$30,072,067 excluding capital transfers-out. The FY 2007/08 General Fund Operating Budget projects a balanced budget with a moderate excess of operating revenues above operating expenditures.

<b>GENERAL FUND SOURCES</b>	<b>FY 2007/08 PROPOSED BUDGET</b>
<i><b>Revenues</b></i>	
General Fund Operating Revenues	\$ 31,038,930
<i><b>Fund Balance Sources</b></i>	
Capital / Special Project Reserve	\$ 525,000
<b>TOTAL SOURCE</b>	<b>\$ 31,563,930</b>

<b>GENERAL FUND USES</b>	
General Fund Operating Expenditures	\$ 29,639,827
General Fund Transfers	\$ 957,240
<b>TOTAL USE</b>	<b>\$ 30,597,067</b>

FY 2007/08 budgeted operating revenue sources total \$31,038,930. As shown above, operating revenues were supplemented with funding from the capital/special projects reserve (General Fund's Reserve for Capital and Special Projects) sources of funding for non-recurring capital project expenses (included in the \$957,240 General Fund transfers amount in the General Fund Uses section). Staff is again pleased this year to continue to recommend no use of the approximate \$3.7 million General Fund Reserve for Economic Uncertainty for these one-time or discretionary expenditures under the proposed FY 2007/08 Budget.

### General Fund Revenue Forecast

The following table presents a summary of General Fund revenue sources for the FY 2006/07 Adopted Budget, the FY 2006/07 Adjusted Budget, and the FY 2007/08 Proposed Budget:

<b>GENERAL FUND REVENUES</b>	<b>2006/07 Adopted</b>	<b>2006/07 Adjusted</b>	<b>2007/08 Proposed</b>	<b>% Change from PY Adopted</b>	<b>% of FY2007/08 Revenues</b>
Sales & Use Tax	\$ 7,646,000	\$ 8,100,140	\$ 8,231,100	7.7%	26.5%
Property Tax	6,369,900	6,469,900	6,727,220	5.6%	21.7%
VLFB backfill Property Tax	1,879,500	1,990,550	2,030,360	8.0%	6.5%
Fees for Town Services	3,188,490	3,231,390	3,381,470	6.1%	10.9%
Intergovernmental	2,089,780	2,215,132	2,168,025	3.7%	7.0%
Other Licenses & Permits	1,537,500	1,556,000	1,920,400	24.9%	6.2%
Business Licenses	1,000,000	1,050,000	1,050,000	5.0%	3.4%
Interest	1,205,700	1,705,700	1,498,300	24.3%	4.8%
Franchise Fees	1,013,500	1,238,940	1,603,180	58.2%	5.2%
Transient Occupancy Tax	930,000	1,000,000	1,000,000	7.5%	3.2%
Fines & Forfeitures	455,900	455,900	525,405	15.2%	1.7%
Other Sources	510,300	506,800	535,100	4.9%	1.7%
Fund Transfers In	506,250	506,250	368,370	-27.2%	1.2%
<b>Total Revenues</b>	<b>\$ 28,332,820</b>	<b>\$ 30,026,702</b>	<b>\$ 31,038,930</b>	<b>9.6%</b>	<b>100%</b>

*Sales Tax* – This largest General Fund revenue source shows a 7.7% increase from the FY 2006/07 Adopted Budget of \$7.6 million, largely due to increases beyond estimates collected from one local internet commerce retailer. A recent forecast prepared by the Town’s sales tax auditors conservatively projects FY 2007/08 collections to be \$8.2 million, a \$130,960 increase from the FY 2006/07 Adjusted Budget of \$8,100,000. The Town does have a small number of companies in general retail and specialty merchandise on a successful growth trend; however, the automotive sales category representing approximately 19% (formerly nearly 30%) of the Town’s sales tax continues to struggle, with the closure of three dealerships in the past two fiscal years. With regard to Sales Tax, it is important to note that the Town receives only 1 cent of the 8.25 cents of sales tax per dollar of sales generated in the Town.

*Property Tax* – The second largest source of revenue for the Town, property taxes have been increasing due to a continued strong real estate market and its resultant turnover of housing stock. Property tax revenues were adjusted approximately 1.6% at mid-year in FY 2006/07 because collections were trending ahead of estimates. Comparing the forecast against the prior year’s adjusted budget of \$6,449,900 indicates an approximate 4% increase forecasted for FY 2007/08.

Property Tax as a revenue source is limited in its capacity to fully fund Town services due to a legislated distribution formula. The Town currently receives approximately 9.5 cents of each property tax dollar paid by Town property owners. The remaining 90.5 cents of each dollar is distributed to other taxing jurisdictions as follows: local schools and community college districts (46.3 cents), ERAF (11.7 cents), the County of Santa Clara (15.7 cents), Santa Clara County Central Fire Protection District (13.7 cents), and other special districts (totaling 3.1 cents) that serve the community.

*Fees for Town Services* – Reflect a growth of \$192,900 or 6.1% from the prior year adopted budget. The increase is due to a combination of fee adjustments and increased pass-through revenues. As in years past, certain fees were examined and recommended to increase by moderate levels. The majority of fees increased by the December 2005 to December 2006 Consumer Price Index (CPI) factor of 3.4% to ensure that the Town follows its financial policies requiring that fees provide a cost recovery. The revenue estimates also reflect projections of modest increases in activity from the prior year.

*Intergovernmental Revenues* – Reflect an increase of \$78,245 or 3.7%, due in large part to the negotiated increase in the contract for police services between the Town and the City of Monte Sereno. This contract is expected to be carried forward for Council approval before the end of FY 2006/07.

*Motor Vehicle License (VLF) Fee/Property Tax Backfill* – Reflects an increase of \$150,860, or 8%, from the adopted budget. The increase is based upon the analysis of the revenue trends experienced in FY 2006/07. The structure of this vital local government revenue source has changed structure. The VLF fee (also known as the “Car Tax”) was reduced by 2/3rds in FY 2004/05 by the Governor. The lost revenue to local government was replaced by a property tax “backfill” by the State. In FY 2004/05 the state budget bill permanently replaced the “backfill” property tax with dedicated property tax apportioned from the countywide property tax collections. The Town, in coordination with the League of California Cities, California Police Chiefs, California Society of Municipal Finance Officers, and many other local governments, continue their efforts to protect this important revenue source from future reductions that may be proposed this summer as part of the solution to the State’s budget crisis. With the overwhelming approval of Proposition 1A by California voters, this revenue now has the same protections from future State “takes” as the Town’s property tax.

*Other Licenses & Permits* – Revenues in this category are estimated to increase by \$432,900 or 28.2% due mainly to the application of deferred revenue received in prior years from several major developments such as the Sobrato and Villa Felice projects. By deferring the revenue and scheduling it for use in the following year,

the revenue is budgeted to match expenditure patterns associated with the timing of these developments as they progress through the Town's process.

Business License – Business License revenues reflect no change for FY 2007/08 from the prior year.

Interest Earnings – Interest is projected to increase by \$292,600 or 24.3% from the prior year's adopted budget due to increase in investment returns and the local Agency Investment Fund ( LAIF) rate. LAIF yields have risen to an average yield of 5.129 % in December 2006, from 3.808 % in December 2005, and from its record low of 1.42 % in May 2004.

Franchise Fees – Includes fees from PG&E for electricity and natural gas sales, from garbage collection services and from Comcast for cable franchise fees, which reflect a total \$589,680 or a 58.2% increase from the prior year. The large increase is due primarily to the increase related to garbage franchise fees. With the transition to the new garbage contract, the franchise fees effective for the new contract were established at 16%. The prior year contract provided for a 10% franchise fee and approximately \$300,000 in annual surcharge fees for solid waste program expenses. The new contract increases the franchise fee annual payments from approximately \$440,000 in the prior year to \$990,000 in FY 2007/08, but eliminates the collection of approximately \$330,000 in annual solid waste surcharge fees. Franchise fees for electricity and natural gas were increased to reflect a moderate upward trend in electric and natural gas sales that the Town experienced in the current year, and is expected to continue into the next year.

Transient Occupancy Tax – Estimates reflect a \$70,000 increase from the FY 2006/07 Adopted Budget of \$930,000. In FY 2006/07, these estimates were increased by \$70,000 to a revised budget of \$1,000,000 to account for an upturn in travel with overnight hotel stay. The revised estimate is supported by actual collection trends experienced by the Town in the spring of 2007 and the new revised amount of \$1,000,000 is forecasted for next year. Though a recovery in this revenue source to the levels of four years ago (\$1.2 million) appears unlikely, the Town's Economic Vitality Manager is working closely with the business community, hoteliers, and the Town's Chamber of Commerce, among others, to encourage tourism, shopping, and business travel, and other activities which may lead to increased occupancy in local hotels and motels.

Other Sources – A variety of miscellaneous revenues are projected to increase moderately by 4.9% from the prior year.

Fund Transfers are planned to decrease \$137,880 or 27.2% from the prior year due to the reduction in subsidies required to be transferred to the Town's parking fund as a result of anticipated parking citation revenues and a forecasted lower cost structure for parking enforcement services.

Fines and Forfeitures – Shows an increase of \$69,505 or 15.2% from the prior year. The majority of the increase is due primarily to increases in fines projected to be received for traffic safety and parking violations based upon current year trends.

## General Fund Expenditure Highlights

As shown in the following schedule, the FY 2007/08 General Fund Operating Budget represents a 5.6% increase (excluding capital transfers out) from the prior year net adopted operating expenditures of \$28,464,645.

<b>GENERAL FUND EXPENDITURES</b>	<b>2006/07 Adopted</b>	<b>2006/07 Adjusted</b>	<b>2007/08 Adopted</b>	<b>% Change from PY Adopted</b>	<b>% Change from PY Adjusted</b>	<b>% of FY2007/08 Expenditures</b>
Police Department	\$ 11,610,660	\$ 11,625,576	\$ 11,958,720	3.0%	2.9%	39.1%
Parks & Public Works	4,902,150	4,967,350	5,255,750	7.2%	5.8%	17.2%
Community Development	3,231,500	3,246,500	3,656,585	13.2%	12.6%	12.0%
Non-Departmental	3,082,370	3,483,490	3,660,230	18.7%	5.1%	12.0%
Administrative Services	2,338,010	2,338,010	2,442,300	4.5%	4.5%	8.0%
Library Services	1,989,660	1,989,660	2,056,810	3.4%	3.4%	6.7%
Community Services	955,565	982,065	1,032,772	8.1%	5.2%	3.4%
Town Attorney	245,450	245,450	257,750	5.0%	5.0%	0.8%
Town Council	159,030	159,030	167,300	5.2%	5.2%	0.5%
Town Treasurer	98,150	98,150	106,650	8.7%	8.7%	0.3%
Clerk - Elected	2,100	2,100	2,200	4.8%	4.8%	0.0%
<b>Total General Fund Expenditures</b>	<b>\$ 28,614,645</b>	<b>\$ 29,137,381</b>	<b>\$ 30,597,067</b>	<b>6.9%</b>	<b>5.0%</b>	<b>100%</b>
Less Trsfrs to Capital Improvement	150,000	566,036	525,000	250.0%	-7.2%	
<b>Less Capital Transfers</b>	<b>\$ 28,464,645</b>	<b>\$ 28,571,345</b>	<b>\$ 30,072,067</b>	<b>5.6%</b>	<b>5.3%</b>	

Departmental budgets were prepared on a “status quo” basis. Notable exceptions to the average increases by department of 4% to 5% from the prior year’s budget include:

*Community Development Department* proposed expenditures increased 13.2% from the prior year. Excluding the addition of \$173,500 in “pass thru” expenditures related to the General Plan Update project in FY 2007/08, the departmental expenditures are proposed to increase 10.26%. The 10.26% increase is due to certain cost increases necessary to facilitate the department’s efforts to provide better customer service. These costs include departmental reorganizations and reclassifications, \$50,000 in one-time information services technology costs related to online permitting and e-government, \$41,000 in special noticing costs, and one-time training for building inspection staff estimated to cost \$10,000.

*Non-Departmental* recommended expenditures reflect an 18.7% increase from the prior year’s adopted budget. The increase is largely explained by a change in accounting methods for the solid waste program whereby \$247,980 of General Fund franchise fees under the new solid waste contract are transferred out to the Solid Waste fund to provide operating revenues for solid waste activities. Also included are a \$25,000 increase for special studies for an anticipated community satisfaction survey, and an \$85,000 increase as a placeholder for anticipated higher costs related to the Town’s share of post retirement medical benefits.

*Police Department* reflects a 3.0% increase from the prior year’s adopted budget. The percentage increase is lower than the 4-5% overall Town-wide increase because of savings that reduced the department’s average 4% increase in salaries and benefits cost. The savings related to the recommended defunding of one Parking Control officer position. Some of this cost saving is recommended to be redeployed into funding to add a half time Community Services Officer Intern position. The recommended budget also was negatively impacted by the loss of \$90,000 in reimbursement funding for the police officer position reassigned from a task force to patrol. An additional \$90,000 is funded to ensure minimal staffing levels in the event of vacancies. Other public safety costs increases include a \$95,100 increase in internal service fund costs for the year. Most of that increase was attributable to increased costs for management information systems support charges reflecting the increasing use of technology to provide public safety services.

## **Staffing Changes Proposed for FY 2007/08**

Included in the Proposed FY 2007/08 Budget are certain staffing changes which are either discussed in the Status Quo Budget Highlights section of this document, or in more detail in the Financial Summaries section and Departmental Budget Overviews of the Summary Budget document. Overall, a net decrease of 2.02 FTES is recommended in the Proposed FY 2007/08 budget.

## **FORMAT OF THE BUDGET DOCUMENT**

The Departmental Budget section provides an introduction for each department that presents an executive summary level of department's purpose, budget overview, a summary of proposed revenues and expenditures, and a staffing summary. The budget overview provides a synopsis of significant budget changes in the proposed FY 2007/08 Annual Operating Budget from a departmental perspective. Following the summaries are program presentations that include a program purpose description, a summary of revenues and expenditures, key projects for FY 2007/08, key services, staffing showing full time equivalent (FTE) by position classification, and performance measures and workloads.

## **LOS GATOS REDEVELOPMENT AGENCY BUDGET OVERVIEW**

Incorporated into the Town's Operating and Capital Budget are the authorized revenues and appropriations for the Town's Redevelopment Agency. Although the Agency's and the Town's actions are coordinated, the RDA is a separate legal entity with its own set of obligations, authority and objectives.

The RDA FY 2007/08 – 2011/12 Budget fulfills Redevelopment law requirements by outlining revenues, expenditures, and indebtedness while explaining the work program for the coming year and the previous year's achievements. The budget implements the RDA FY 2007/08 work plan to complete key redevelopment projects in the Downtown area, initiates affordable housing projects using 20 percent housing set-aside funds, and undertakes an Economic Vitality Program for the Town.

Tax increment revenues to the Agency continue to grow annually based on assessed values in the Downtown Redevelopment Project Area. In July 2002 the Agency facilitated the issuance of approximately \$10.5 million in Town of Los Gatos Certificates of Participation in July 2002. Approximately \$360,000 of this funding source remains at this time and is programmed in the Town's FY 2007/12 Capital Improvement Plan providing elements of funding for a number of key projects within the Town's project area. These include the North Santa Cruz Lighting improvement, Elm Street repairs and a pilot street reconstruction projects in the Almond Grove, and funding to initiate preliminary design of the downtown gateways.

Staff remains vigilant in its efforts in association with the California Redevelopment Association to protect tax increment from State property tax "takes" and attempts to further restrict the use of increment Redevelopment Agency for important infrastructure improvements within the project area. It is important to note that under State law the last year that the Town can issue tax increment bonds is 2011. Priorities will need to be established for the remaining tax increment so these funds can be fully utilized before the Agency is scheduled to sunset in FY 2031/32. Staff will bring this issue to Council for discussion at a future time.

## **CONTINUING INITIATIVES – From the FY 06/07 Budget**

The FY 2006/07 Annual Operating Budget focused strategically on providing quality core services and implementing key projects and new initiatives. The following special projects continue with the FY 2007/08 Operating and Capital Budget.

- Public Information and Community Outreach – Communicating with the community continues to be a high priority for the Town. A major communication improvement launched in FY 2005/06 was the

redesign of the Town's website. In FY 2007/08, more e-government services will be incorporated into the web site, including web-streaming of Town Council and Planning Commission meetings and the availability of archived audio/video replays of previous Council meetings.

- General Plan Implementation – The development of a North 40 Specific Plan, will continue in the upcoming fiscal year. Also scheduled in FY 2007/08 are the residential design guidelines, in conjunction with guidelines for pre-1941 structures (begun in FY 2005/06).
- Economic Vitality Efforts and Marketing Plan – The Town's Economic Vitality Program will continue to focus on business attraction, retention, and relationship building with the business and commercial real estate community in coordination with the Town's Executive Team. In addition to building relationships, staff will continue to market the Town for the purposes of increasing Town revenues and enhancing the image of Los Gatos as a special place to live, visit, and do business. The successful "Summer in Los Gatos" and "Hometown for the Holidays" campaigns will be revised into a year-round shop local awareness campaign in FY 2007/08.
- Customer Service – During FY 2005/06, the organization undertook the first phase of a Customer Service Center to begin to centralize some information services. In FY 2007/08, staff will evaluate other Town services that could be centralized in the Customer Service Center. The vision is to minimize the number of places customers need to contact for basic information and services. In addition, front-line employees participated in comprehensive customer service training to help define the Town's customer service principles with the objective of delivering services consistent with those principles. In FY 2007/08, additional employees will participate in the training with the involvement of employees previously trained.
- Community Unity – In Spring 2005, the Town launched "Community Unity," a program that brings together service-minded organizations and individuals to identify community projects for groups to work on together. During FY 2005/06, the Town monitored the progress of the projects (a number were completed), supported the effort through the Town web site, and brought the groups together again. During FY 2007/08, the effort will focus on building the capacity and use of the web site as the primary tool for connecting volunteers with projects.
- Information System Upgrade – The Town's financial/human resource system is technologically outdated and is extremely limited in providing necessary reports and desired online and e-government services. Staff has begun the design and implementation of an upgrade that will allow the Town to better support operations and meet community needs. Implementation of this project will require significant internal resources involving all departments. The project is currently on hold due to vacancy at the Finance Manager position, but should have significant progress in FY 2007/08.

#### **SPECIAL PROJECTS AND NEW INITIATIVES – Priorities for the FY 2007//08 Budget**

FY 2007/08 will be another year of significant activity. The Town will continue to deliver day-to-day core services, as reflected in the departmental sections of the budget. At the same time, staff will undertake priority special projects and initiatives, also noted in the departmental budget sections, during FY 2007/08. The following highlighted projects are currently in progress and will be fully implemented in the coming fiscal year, including:

- Emergency Preparedness – Community Self-Sustainability -- All levels of governments have a heightened awareness of the need to be prepared to respond to and manage through disasters due to the recent



tsunami, earthquake and hurricanes. In FY 2007/08, the Town will work with local and regional partners to expand the outreach campaign to educate the community about how to be self-sufficient for at least 72 hours following a natural disaster such as an earthquake or during a major health crisis such as a flu pandemic. This initiative will leverage existing efforts to ensure a cost-effective and far-reaching program that expands resident and business participation in the Town's Community Emergency Response Team (CERT) program.

- Community Resident Survey – The Town, in collaboration with other local cities, will conduct a resident survey using the National Citizen Survey, a service offered by the International City/County Management Association (ICMA) and National Research Center, Inc. (NRC). The National Citizen Survey is a cost-effective system for conducting comprehensive and customized surveys of local residents.
- Wireless Silicon Valley - The Town of Los Gatos has partnered with other cities in Santa Clara, San Mateo, and Santa Cruz Counties to engage a wireless provider to construct a wireless network throughout the region. The network would provide free or low-cost Internet services for residents and businesses, as well as support municipal applications such as the use of the network by public works field workers, police officers, and building inspectors. The selection of the provider(s) has occurred and the Town will work with the multi-jurisdictional group to deploy the service in Los Gatos, which is anticipated to be mid-2008.
- 2008 Housing Element - As required by the State, staff will initiate the update of the General Plan Housing Element in FY 2007/08. The key tasks for this fiscal year are as follows:
  - Analyze the housing unit allocations established by the State and ABAG
  - Retain a housing policy consultant to assist in the preparation of the Housing Element
  - Collect background data on housing units and housing needs
  - Begin preparation of draft Housing Element
- Implementation of Civic Center Master Plan - It is expected that the Town Council will approve the final Civic Center Master Plan (CCMP) in June, 2007, along with direction regarding next steps. Next steps may include a detailed financial analysis focusing on the first phase(s) of implementation, an outreach and education effort to inform the community about the CCMP and the first phase(s) to be explored, and a follow-up survey to gauge voter support for financing mechanisms to support the first phase(s). If the first phase involves the development of an off-site police facility, the Town Manager's Office will work with the Police Department and other departments on the build-out of the facility and the relocation of designated police services to it. Assuming critical public facility needs are met through an off-site location, the next phases of the CCMP can be undertaken as directed by the Town Council.
- 2010 General Plan Update Work Plan - At the 2007 Town Council retreat, the Town Council provided direction on incorporating community visioning into the 2010 General Plan update. Beginning in FY 2007/08, staff will develop a work plan for the update, which will include community visioning and non-land use issues and challenges, such as economic vitality and public facilities.
- Town Hall in the Neighborhood - The Town Council will use the model of the previously-held Town Hall in the Neighborhood meetings to communicate with the community about three of the new initiatives identified above: emergency preparedness, implementation of the Civic Center Master Plan, and the General Plan Update. These meetings will be scheduled after the Council's July recess.

## CONCLUSION

Despite the continuing uncertainty, the Town positioned itself well to react to the downturn in the local economy and the State budget crisis and any new unexpected State “takes” of local revenues by proactive steps taken this year and in prior years, with actions such as strategic hiring freezes, cost containments, defundings of filled and vacant positions, and departmental efficiencies. The FY 2007/08 Annual Operating and Capital Budget proposes a conservative approach to address the Town’s current priority needs in a fiscally responsible manner by aligning service levels with projected operating revenue. Under the “status quo” budget scenario, the emphasis for FY 2007/08 will be to focus on core services, to evaluate the impacts of the last four years of budget cutbacks on service delivery, to emphasize completion of FY 2007/08 special projects and initiatives, to successfully carry out the first year of the FY 2007-12 Capital Improvement Program plan and to assist the Council to envision the Town’s future.

Town staff will continue to look for ways to better use existing resources to facilitate the delivery of priority services through staff redeployments, restructuring, and new ways of doing business and delivering Town services to the community. These efforts will be the result of the Town’s investment in the tools necessary to assist staff to evaluate and develop opportunities through the creative use of existing talents and resources.

Staff’s vigilance in tracking the developments in the local economy and at the state level will remain a priority, enabling the Town to proactively respond to changing conditions. Changes needed to respond to more severe revenue declines or State revenue take-aways will be brought to Town Council’s attention in a timely manner so that the Town can implement the appropriate response to conditions as warranted. Included in the range of options will be use of “bridge funding” from the Revenue Stabilization Reserve or other appropriate funding sources.

I wish to thank all of the departments, in particular, Department Directors and the members of their Management and Support staff, who worked diligently on the preparation of this budget document as well as the following staff members:

Stephen Conway, Director of Finance and Administrative Services  
Pamela Jacobs, Assistant Town Manager  
Jenny Haruyama, Administrative Programs Manager  
Mark Rasiah, Contract Finance Manager  
Glenda Cracknell, Accountant/Finance Analyst  
Linda de Bar, Accountant/Administrative Analyst  
Gayle Barr, Payroll Specialist  
Gitta Ungvari, Intern  
Budget Team Departmental Support Staff and Analysts

Respectfully submitted,



Debra J. Figone  
Town Manager

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Town of Los Gatos, California for its annual budget for the fiscal year beginning July 1, 2003. In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

# BUDGET PROCESS OVERVIEW

**T**he Town of Los Gatos adopts an annual Operating and Capital Budget and an annual budget update of the five-year Capital Improvement Plan for the Town and its' Redevelopment Agency. The budgets contain summary level information for revenue and expenditure appropriations for the fiscal year beginning July 1<sup>st</sup> and ending June 30<sup>th</sup>.

## ***Budget Purpose***

These budget documents serve as the Town's financial plan, as well as a policy document, a communications tool, and an operations guide. Developed with an emphasis on long range planning, service delivery, and program management, a fundamental purpose of these documents is to provide a linkage between the services and projects the Town and RDA intends to accomplish and the resources committed to get the work done.

The format of the budget facilitates this linkage by clearly identifying program purpose and workplan goals in relation to revenue and expenditures appropriations.

## ***Basis of Budgeting and Accounting***

Developed on a program basis with fund level authority, the Operating and Capital Summary Budget depicts the services provided by the Town through the resources allocated for the provision of these services.

The Town's Governmental Funds consist of the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds for both the Town and the Redevelopment Agency (RDA).

Basis of Accounting and Budget refers to the timing factor concept in recognizing transactions. This basis is a key component of the overall financial system because the budget determines the accounting system. For example, if the budget anticipates revenues on a cash basis, the accounting system must record only cash revenues as receipts. If the budget uses an accrual basis, accounting must do likewise. The Town uses a combination of modified accrual and full accrual basis in accounting and budget.

Governmental Fund types and RDA fund budgets are developed using the modified accrual basis of accounting. Under this basis, revenues are estimated for the period if they are susceptible to accrual, e.g. amounts can be determined and will be collected within the current period. Principal and interest on general long-term debt are budgeted as expenditures when due, whereas other expenditures are budgeted for liabilities expected to be incurred during the current period.

Proprietary fund budgets are adopted using the full accrual basis of accounting whereby revenue budget projections are developed recognizing revenues expected to be earned during the period, and expenditures are developed for expenses anticipated to be incurred in the fiscal year.

The Town's fiduciary funds are also budgeted under the modified accrual basis. The Town administers two trust funds and one agency fund. Trust funds are subject to trust agreement guidelines, and the Agency Fund is held in a purely custodial capacity involving only the receipt, temporary investment, and remittance of resources.

## ***Summary of Budget Development***

Town budgets are developed using a team-based budgeting approach. Town Management and the Finance Department guide the process through budget development; however program budgets and workplans are developed with the department's Director, Analyst and Program Manager's oversight and expertise. This approach allows for hands-on planning and creates a clearer understanding for both management and staff of a program's goals and functions to be accomplished in the next budget year.

### **The Budget Development Process**

Typically the Operating and Summary Budget process begins in the fall with the Town Council and Town Manager's cooperative development and refinement of initiatives and directives for the upcoming budget year. The CIP is also reviewed during this time to determine new initiatives, project priority, and to refine project workplans. Although the CIP budget document is prepared separately from the Operating and Capital Budget, the CIP information is incorporated into the operating budget document through resulting operating functions and service level requirements.

In January the budget preparation process begins officially for staff with a budget kickoff meeting. Budget assumptions, directives and initiatives developed by Town Council and Management are provided to set the Town's overall objectives and goals. Department and agency staff identify and analyze program revenue and expenditure projections in coordination with Finance/Budget staff and Town management. Through rounds of budget briefings and revisions, staff's final program budget and workplans are developed by the end of April. During the month of May, the Finance/Budget staff prepares financial summary information for Town Council review in addition to the departmental budgets and workplans.

## **Adoption**

Section 2.30.295(b) of the Los Gatos Town Code requires the Town Manager to annually prepare and submit a budget to the Town Council. This is accomplished in early June, when the proposed budget is formally submitted to the Town Council in a public hearing. Notice of the hearing is published in a local newspaper at least ten days prior to the public hearing date. The public is invited to participate and copies of the proposed budget are available for review in the Town Clerk's office and at the budget hearing.

Final council-directed revisions to the proposed budget are made and the budget documents are resubmitted to the Town Council for adoption, again in a publicized public hearing prior to the beginning of the fiscal year. The approved resolutions to adopt the CIP and operating budgets and the appropriation limitation follow this section.

## ***Budget Amendments***

During the course of the fiscal year, workplan changes and unanticipated needs will necessitate adjustments to the adopted budget. The Town Manager is authorized to transfer appropriations between categories, departments, projects, and programs within a fund in the adopted budget, whereas the Town Council holds the authority for budget increases and decreases and transfers between funds.



# BUDGET CALENDAR

**October /  
November /  
December**

proposals and development

- Determine project priority
- Prepare upcoming workplan, timing schedules
- Prepare cost estimates
- Determine revenue sources

Determine and refine initiatives and directives for upcoming budget year

Update User Fee Schedule

**January**

Prepare Internal Service and Equipment Replacement Fund analyses and schedules, finalize internal service rates

Budget Kick-off Meeting – General information to staff on:

- State of the Town
- Budget assumptions, directives, initiatives, and goals
- Development of department and program workplans
- Asset/Internal Services/Staffing request procedures

1<sup>st</sup> Draft revenue projections due to Budget Office

Analyze budget projections and review with Town Manager

**February**

1<sup>st</sup> Draft staffing requests due to Budget Office

Review and finalize staffing positions and requests

1<sup>st</sup> Draft asset, internal service requests, and expenditure requests due

1<sup>st</sup> Draft CIP and RDA Budget due to Budget Office

Review Internal Service requests with responsible Program Managers

1<sup>st</sup> Draft Internal Service budgets due to Budget Office

Incorporate approved staffing, assets, internal services and program expenditure requests into a 1<sup>st</sup> Draft budget

**CIP and RDA  
workplan**

**March**

Review and analyze 1<sup>st</sup> Draft budget, briefing with Town Manager

1<sup>st</sup> Draft CIP / RDA budget briefing – determine program revisions

1<sup>st</sup> Draft budget briefings with Town Manager, Department Heads, and Analysts – determine department / program revisions

2<sup>nd</sup> Draft budget revisions and workplans due to Budget Office

2<sup>nd</sup> Draft briefing and revisions with Town Manager, departments

**April**

Program narratives, financial and supplemental schedules, financial summaries, and charts prepared

Grant distribution finalized

Budget revisions finalized and proposed budgets assembled

Proposed budget briefing with Town Manager

Distribute Proposed Operating and CIP budgets to Town Council

**May**

Public Hearings for proposed User Fee Schedule, Operating and Capital, CIP, and RDA Budgets

Town Council revisions incorporated into budget documents

**June**

Public hearings for final adoption of the User Fee Schedule, Gann Appropriation Limit, Operating and Capital Budget, and 5 year CIP and RDA Budgets

Final document preparation of financial and supplemental schedules, charts, reference materials, etc.

**July/  
August/  
September**

Adopted Operating and CIP Budget documents finalized, printed and distributed









